

REPORT OF  
FINANCIAL EXAMINATION

**BOEUF & BERGER MUTUAL INSURANCE  
COMPANY**

As Of  
December 31, 2004



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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January 6, 2006  
New Haven, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Dear Sir:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

**Boeuf & Berger Mutual Insurance Company**

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 545 Harold H. Meyer Drive, New Haven, Missouri 63068; telephone number (573) 237-3476. This examination was conducted at the home office in New Haven, Missouri. The examination began December 20, 2005, and concluded January 6, 2006.

**SCOPE OF EXAMINATION**

Period Covered

The Company was last examined by the Missouri Department of Insurance in 2000, for the period ending December 31, 1999. The current examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by an examiner from the Missouri Department of Insurance.

Procedures

This examination was conducted using the guidelines set forth by the practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri. Information provided by the Company's independent accountant was relied upon, including cash and securities confirmations, and the unearned premium calculation.

Comments – Previous Examination

The general comments and recommendations in the previous examination report and the subsequent action taken by the Company are listed below.

**Comment: Accounts and Records**

The Board should adopt a formal written business plan with measurable goals for the Company. This would document the Board's long-range plans for the Company's future and help ensure that all directors have a common understanding of the goals. Adoption of a business plan is even more critical now given the Company's continued overall growth and significant expansion into other areas of the state. A business plan would also help the Company react, in a more efficient manner, to business opportunities that arise in the future.

**Company Response:**

The Company submitted a written business plan.

**Current Findings:**

The Company's Business Plan submitted is reasonable and was approved by the Board of Directors.

## **HISTORY**

**General**

The Company was organized on April 20, 1908 as the Boeuf & Berger Mutual Aid Society. On February 4, 1935, the Company amended its Articles of Incorporation and changed its name to Boeuf & Berger Mutual Insurance Company. On September 22, 1987, the Company received a Certificate of Authority to provided insurance under sections RSMo. 380.201 to 380.601 (Extended Missouri Mutual Insurance Company).

**Management and Control**

The Company is managed by a board of seven directors, each serving a staggered three-year term. Directors are elected at the annual membership meetings, which are held on the third Tuesday of every February. Special meetings of the members may be called by a two-thirds vote of the Board of Directors or upon petition of one-fourth of the membership. Ten members constitute a quorum at any membership meeting. Absentee ballot and proxy voting are not permitted.

As of December 31, 2004, the Board consisted of the following members:

<b><u>Name/Address</u></b>	<b><u>Occupation</u></b>	<b><u>Term</u></b>
Charles Vedder, President 2269 Highway C New Haven, Missouri 63068	Retired Farmer	2004 - 2007

Kenneth Bolte, Vice-President 2105 Enochs Knob Road New Haven, MO 63068	University of Missouri Farm Management Specialist	2005 – 2008
Robert Bohl 1946 Sawmill Road Hermann, MO 65041	Manager, Moval Farms, Inc.	2003 – 2006
Jackie Branson 10174 Highway 100 New Haven, MO 63068	Accountant	2004 – 2007
Richard Scheer 125 Woodview Lake Drive New Haven, MO 63068	Dairy Farmer	2005 – 2008
John Steinbeck 2356 StonyHill Road Owensville, MO 65066	Farmer	2003 – 2006
Roland Walkenhorst 4518 Bucklick Creek Road New Haven, MO 63068	Businessman	2005 – 2008

#### Conflict of Interest

Signed conflict of interest statements are obtained annually from all officers, directors and full-time employees. Review of the conflict of interest statements noted no conflicts.

#### Corporate Records

The Articles of Incorporation, By-Laws and minutes from the annual meetings and Board of Director meetings were reviewed. The Company is properly complying with the provisions established in the Articles of Incorporation and By-Laws. Board meeting minutes indicated the Board is informed of the Company's operations and activities. The Board formally acknowledged receipt, review and approval of the prior Missouri Department of Insurance examination report at its July 25, 2000 meeting.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company has fidelity coverage of \$250,000 from St. Paul Fire & Marine Insurance Company which exceeds the minimum requirement suggested by the NAIC. Errors and omissions coverage from the NAMIC Insurance Company, Inc. (NAMIC) is provided for the Company's agents, with a coverage limit of \$2,000,000. Independent agents are required to have errors and omissions coverage that meets the Company's requirements. NAMIC also provides directors and officers coverage with a limit of \$2,000,000. The Company provides its own coverage for its building with a commercial property policy providing a \$600,000 fire and contents coverage limit, and also has a general liability policy with Cameron Mutual Insurance Company. Workers compensation coverage is provided through a policy with Missouri Employers Mutual Insurance Company.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company provides a variety of benefits for all full-time employees, including life, health and dental insurance. The Company also provides twelve paid holidays and five paid sick days annually, and provides paid vacation time based on employment tenure, with no accumulation of sick days or vacation days allowed. A deferred compensation plan is offered whereby the employee can contribute up to 6% of their salary up to a maximum of \$6,000 in one calendar year. The Company will match up to 3% of employee contributions per year.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.601 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, windstorm and liability coverages in all counties in the state of Missouri, although a significant portion of the Company's business is concentrated in Franklin, Gasconade and the immediate surrounding counties. Products sold by the Company include homeowners, fire and extended coverage, farm property, commercial property, inland marine and liability insurance policies. All insurance products are marketed by four captive agents and twenty three (23) independent agents, all of whom are required by the Company to be licensed with the state of Missouri. Advertising of insurance products is substantially done on the local level.

### Policy Forms and Underwriting Practices

The Company writes continuous renewal, three-year policies and some four-year policies. Policy rates are approved by the Board of Directors based on internal recommendations. Standardized policy forms are provided by the American Association of Insurance Services (AAIS). An in-house inspector/adjuster is utilized for claims in the immediate geographical area and independent inspectors are used for out-lying area claims, with claims adjusting performed by an independent adjusting service.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Admitted Assets	3,257,926	2,972,999	2,942,311	2,819,102	2,955,327
Liabilities	1,082,982	1,064,359	717,677	108,135	114,154
Net Premiums Written	1,798,777	1,618,684	1,163,631	828,804	641,486
Losses Incurred	841,631	1,127,375	483,138	545,109	394,758
Investment Income	85,313	74,827	95,221	154,900	166,076
Underwriting Income	5,374	(578,390)	(123,469)	(197,994)	(84,639)
Net Income	249,261	(405,496)	(12,178)	(52,207)	32,016
Total Surplus	2,174,944	1,908,640	2,224,634	2,710,967	2,841,173
Policies In Force	5,052	4,977	3,962	2,902	2,296

These numbers are based on data from annual statements provided by the Company.

## REINSURANCE

### Assumed

Boeuf & Berger Mutual Insurance Company assumes reinsurance from Lyon Mutual Insurance Company (Lyon) through an Obligatory Surplus Pooling Reinsurance Treaty covering all property lines of business. The Company assumes \$10,000 per risk from Lyon. The Company is also a member of the Missouri Mutual Reinsurance Exchange, Inc., a group reinsurance pool, under which the maximum assumed cession coverage limit is \$60,000.

### Ceded

The Company participates in a reinsurance program managed by the Guy Carpenter & Company, Inc. reinsurance intermediary under which Boeuf & Berger retains the first \$40,000 of both fire and windstorm coverage.

The Company has additional reinsurance coverage through several agreements with Guy Carpenter. The Obligatory Second Surplus Reinsurance Treaty is a pro rata agreement for fire and windstorm coverages. The Company's retention is \$40,000, and the cessions are limited to five times the net retained liability (\$40,000) of the Company, subject to a maximum liability for the reinsurer of \$200,000. Boeuf & Berger receives a 30% ceding commission on all new business, plus a 35% contingent commission based on net profits after a 10% reinsurer's management expense.

Guy Carpenter is also the intermediary for the Company's Property Facultative Binding Authority Reinsurance Agreement. This is a facultative surplus share agreement for both fire and windstorm coverage, under which the Company's retention is \$40,000 for each risk. Cessions are limited to five times the net retained liability (\$40,000) of the Company, subject to a maximum liability for the reinsurer of \$200,000 for any one risk. Under this contract, the company receives a 30% ceding commission

The Company's Aggregate Excess of Loss Reinsurance Agreement covers all business classified as property and casualty. Coverage begins when the Company's total net losses exceed the greater of 70% of net premiums earned or \$840,000. The reinsurer is then liable for the lesser of 95% of 205% of subject net premiums earned or 95% of \$3,690,000.

The Casualty Excess of Loss Reinsurance Agreement is a per occurrence treaty for liability coverages. The Company's retention is \$20,000 and the reinsurer's maximum limit of liability is \$995,000. The cost for this coverage is 45% of subject net premiums written with a minimum annual premium of \$90,000. An annual deposit premium of \$112,500 is required, payable in quarterly installments.

The Specialty Casualty Excess of Loss Reinsurance Agreement is a per occurrence treaty for liability coverages. Coverage begins when a policy of the Company exceeds \$500,000. The reinsurer shall then be liable for the amount of total net losses in excess of \$500,000 on those policies greater than \$500,000. The cost for this coverage is 35% of the total liability premiums, subject to minimums of \$50 - \$150 per cession depending on the type of liability line of business covered.

## **ACCOUNTS AND RECORDS**

The Company uses the accrual basis method of accounting. Accounting records for premiums, claims and financial reporting are maintained on a personal computer based package developed by Rural Computers Consultants. The CPA firm of Van De Ven, LLC has complete oversight responsibility for all accounting activity of the Company, and has provided its accounting expertise to the Company and several other Missouri domestic mutual insurance companies for several years. Van De Ven prepares all company financial statements, prepares all tax returns, calculates the unearned premium reserves, and prepares all company annual statements. Financial statements are adjusted to comply with statutory accounting requirements for the annual statements.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements" which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only noted in the workpapers for each individual annual statement item.

### **ADMITTED ASSETS**

Bonds	\$ 1,707,698
Stocks	331,691
Real Estate	216,123
Cash on Deposit	555,185
Reinsurance Recoverable on Paid Losses	267,634
Computer Hardware	10,692
Accrued Interest Receivable	15,326
Management Fee Receivable	151,882
Prepaid Expense	1,695
<b>Total Assets</b>	<b>\$ 3,257,926</b>

### **LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses Paid	\$ 130,494
Ceded Reinsurance Payable	124,672
Unearned Premium	783,079
Accounts Payable	44,737
<b>Total Liabilities</b>	<b>\$ 1,082,982</b>
Guaranty Fund (Note 1)	496,612
Other Surplus	1,678,332
Total Policyholder Surplus	<b>\$ 2,174,944</b>
<b>Total Liabilities and Surplus</b>	<b>\$ 3,257,926</b>

## STATEMENT OF INCOME

Net Assessments (Premiums)	\$ 1,713,840
Reinsurance Commissions	577,824
Net Losses	(820,333)
Underwriting Expenses	<u>(1,465,957)</u>
<b>Net Underwriting Income (Loss)</b>	<b>\$ 5,374</b>
Other Income	191,284
Net Investment Income	52,603
Federal Income Tax	-
<b>Net Income</b>	<b>\$ 249,261</b>

## CAPITAL AND SURPLUS ACCOUNT

Policyholder Surplus December 31, 2003	\$ 1,908,640
Net Income (reported by the Company)	249,261
Changed in Unrealized Gains or Losses on Marketable Securities	26,120
Change in Non-Admitted Assets	(9,077)
Examination Changes (Net)	-
<b>Policyholder Surplus, December 31,2004</b>	<b>\$ 2,174,944</b>

## NOTES TO FINANCIAL STATEMENTS

Note 1 Guaranty Fund \$496,612

The company's \$328,187 reported guaranty fund accrual was deficient by \$168,425. An examination change is being made to increase the company's guaranty fund to \$496,612.

## **EXAMINATION CHANGES**

Total Policyholder Surplus per 2004 Annual Statement:		\$ 2,174,944
	<b>INCREASE IN <u>SURPLUS</u></b>	<b>DECREASE IN <u>SURPLUS</u></b>
Change in guaranty Fund (Note 1)	168,425	
Change in Other Surplus (Note 1)	<u>-</u>	<u>168,425</u>
	168,425	168,425
Net Increase(Decrease) in Surplus		-
<b>Total Policyholder Surplus per 2004 Examination</b>		<b><u>\$ 2,174,944</u></b>

## **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

None.

## **SUBSEQUENT EVENTS**

In August, 1995, the Company's Board of Directors approved a motion to purchase a section of land adjacent to the north side of the Company's home office building. The Company requested approval for this transaction, and approval for the land purchase was granted by the Missouri Department of Insurance on January 19, 2005.

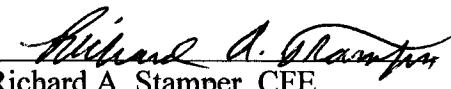
## ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of the Boeuf & Berger Mutual Insurance Company in the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri      )  
                            ) ss  
City of St. Louis      )

I, Richard A. Stamper, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Richard A. Stamper, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 19<sup>th</sup> day of January, 2006.

My commission expires: 5/9/2009

**JULIE KATSARAS**  
Notary Public - Notary Seal  
STATE OF MISSOURI  
St. Louis County  
My Commission Expires 5/9/2009  
Commission # 05707910



Julie Katsaras  
Notary Public

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with regulations and statutes of the state of Missouri has been confirmed.



Christiana Dugopolski, CFE, CPA  
Audit Manager - St. Louis  
Missouri Department of Insurance